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SUBJECT: EAST LONDON'S INDUSTRIAL DEVELOPMENT ZONE SPEEDS
AHEAD

11. Summary: The East London Industrial Development Zone (ELIDZ), established in 2002, is a South African Government initiative to encourage export-driven growth and to diversify the mostly rural Eastern Cape economy. Since its inception, the ELIDZ has grown quickly and now includes fourteen investors already operational in the zone. Seven new ones will come on-line in April 2009. The zone incorporates a cluster approach for locating investors in the zone, with many of the current plants located in the Automotive Supplier Park (ASP). Another cluster, located near the ocean, is home to several seafarming projects. Another future investor plans to implement a biofuels project that will include a rural development component. ELIDZ officials expect to meet their medium-term goal of twenty-five investors located in the zone with a value of R2 billion (USD 200 million) by the end of the 2009/2010 financial year. However, they acknowledged that the global economic downturn has had an impact on the zone's labor force. ELIDZ officials welcome U.S. investors and seek to market the zone in the U.S. with export-oriented industries (i.e., manufacturing and information technology) to promote future investment when the global economy turns around. End Summary.

What is the IDZ?

12. ELIDZ Executive Manager Tembela Zweni, Business Development Manager Msokoli Ntombana and Marketing Specialist Ngoni Katsere met with Consulate Econoff to discuss business activity in the IDZ. Zone literature points out that the South African Government established the ELIDZ in 2002 in an attempt to diversify the provincial economy and to attract both local and foreign investors. The officials indicated that the zone, which is located on the outskirts of the Eastern Cape coastal city of East London, already has one hundred serviced sites that include complete water supply, electricity, information technology, logistics and security services. The zone incorporates a "cluster approach" which locates investors in similar sectors within the same area of the zone. Here the firms can access the aforementioned services and share costs, thus enabling them to focus more on their core businesses. They do not have to worry about security, for example, because the zone already provides a high level of security services. Executive manager Zweni also volunteered that the zone uses world-class infrastructure and affords easy access to transportation. The ELIDZ is six kilometers from the city harbor and only two kilometers from the airport.

13. The ELIDZ, like its sister IDZ in Port Elizabeth, is a (PTY) Ltd. private company. Comment: A PTY Ltd. company is similar to a limited liability company in the U.S. End Comment. Zweni volunteered that ELIDZ, though funded in part by the government, has an independent board of directors, which includes individuals from both the public and private sectors. The board appoints the zone's CEO, whom the government then endorses. The officials expressed confidence that they will reach their goal of twenty-five investors in the zone with an investment value of R2 billion (USD 200 million) by the end of the 2009/10 financial year. Zweni

indicated that they had almost reached that goal already with several other projects in the pipeline.

Who are the Investors?

14. Business Development Manager Ntombana shared that the ELIDZ has twenty-one confirmed investors, fourteen of whom QELIDZ has twenty-one confirmed investors, fourteen of whom are already operating there. Total investment, at this time, amounts to R1.1 billion (USD 110 million). Most of the companies who are on the ground are manufacturers in the automotive, aquaculture, transport and logistics sectors. Auto parts companies supply various vehicle components for car companies Mercedes Benz, Volkswagen and General Motors (GM). They deliver "just-in-time" products to the car companies which are then exported to other countries. Zweni shared that some of the vehicle suppliers, such as "CarCoustics", provide car parts to GM Brazil. Another auto parts company, Feltex, supplies Mercedes Benz, Volkswagen and GM with sun visors, carpeting and upholstery. Two other companies, Seatek and Espadon Marine are involved in seafarming. The following list provides the names of the companies operational in the zone and their particular type of business.

Carcoustics - heat shields exported

MC Synchro - assembly of tyres and rims for Mercedes Benz South Africa (MBSA)

Feltex automotive trim - moulded carpets, sound insulators, sun visors for BMW, Toyota, Ford, Nissan and MBSA

Feltex Caravelle - loose lay carpet for MBSA, VW and Toyota

Feltex Fehrer - seat pads and head rests for VW, Toyota, Ford and MBSA

Feltex Futuris - tufted carpet for supply to Feltex Trim and Feltex Caravelle for MBSA

Foxtec-Ikhwezi - manufacturing of rear axel sub assemblies and castings for MBSA

Johnson Controls - dashboard and overhead liners for MBSA, VW, Ford and Nissan

Milltrans - Transport and logistics

Molan Pino - Polypropylene foam components for MBSA

Seatek - Abalone farming

TI Automotive - Brake and fuel pipes for MBSA, Toyota, BMW, Ford, VW and Delta

TI Automotive Fuel Systems - complete automotive fuel system for MBSA

UTI - Logistics

15. The officials further indicated that the ELIDZ is planning to diversify away from the automotive manufacturing subsector to other areas, such as energy, agroprocessing, construction and services. For example, Matla Solar Energy, one of the newer investments, will invest R40 million (USD 4 million) to produce solar water heaters. Another investor, Espadon Marine will invest in seafarming technology, using recirculating systems. Still another new investor, unnamed, plans to produce biofuels by raising canola on one million hectares in a poor rural area. This project, which will promote rural development, envisages that forty percent of the resulting canola crop will be used to produce bio-diesel and sixty percent will go to fertilizer. Since canola is primarily a winter crop, the rural community will be able to raise maize in the summer, thereby providing them with both

"cash-crops" and "food crops." Ntombana maintained that the two crops go well together and will help to get "buy-in" from the community and the government. He expects the project to be finalized this year. Comment: South Africa currently plants about a total of 33,000 hectares of canola. An agricultural economist maintains that increasing the planted area by a factor of thirty seems unrealistic, particularly if it is concentrated in only one province. Similarly, maize is produced on only about 15,000 hectares in the Eastern Cape although an official from the Border Kei Chamber of Commerce asserts that far more could be grown here. End Comment.

Effects of the Global Economic Downturn

¶6. Zweni and Ntombana acknowledged that the downturn in the global economy had led to a drop in business but remained sanguine about the future. They noted that before the downturn, there were about 1000 individuals employed in the ASP. Now, there were 650 people employed there. Ntombana maintained, however, that investors were still inquiring about the zone, and he anticipated ongoing growth. One of the automotive parts suppliers said it was increasingly difficult to turn a profit but added that they were doing their best to continue doing business.

¶7. The three officials further mentioned that they were continuing to market the IDZ abroad in anticipation of the eventual turnaround in the global economy. They noted that they would welcome U.S. investors to the zone and asked for a list of potentially interested U.S. companies and industrial associations, particularly in the manufacturing and information technology sectors. They would like to create their own "road show" to present to interested firms. Zweni Qtheir own "road show" to present to interested firms. Zweni noted that the current economic downturn would not last forever and that they wanted to be ready for new investment when the global economy turns the corner.

¶8. Comment: The IDZ is easily found - just a stone's throw from the East London airport. The cluster approach of locating potential investors with shared services already provided is both attractive to potential investors and clever. The officials there appeared sophisticated, professional and enthusiastic about the IDZ's potential. They are correct, however, to diversify the IDZ away from the automotive sector although this sector will continue to play a role here. Diversification will be beneficial for the zone, the provincial economy and future employment. What surprised an outside visitor was the officials' forward-looking perspective. Seemingly undaunted by the global economic downturn, the ELIDZ officials talked about preparing for more investment when the downturn ends and discussed specific ways of achieving that goal. This forward planning should bode well for the ELIDZ. End Comment.

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